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1989/06/17

CONFIDENTIAL

EXCISE

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SECRETARY'S MORNING SUMMARY FOR JUNE 17, 1989

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1. CHINA

A. JUSTIFYING REPRESSION, CONTINUING REFORM

THE CAMPAIGN TO JUSTIFY SUPPRESSION OF THE DEMOCRACY MOVEMENT, PROCLAIM THE RE-ESTABLISHMENT OF STABILITY, AND CONFIRM AN INTENTION TO PROCEED WITH REFORM AND THE OPENING TO THE OUTSIDE WAS CONTINUED IN A PEOPLE'S DAILY EDITORIAL YESTERDAY THAT CONTAINED ALL THREE THEMES. THE EDITORIAL STRESSED THE NEED TO UNIFY NATIONAL THINKING BUT ALLUDED TO WIDESPREAD POPULAR SKEPTICISM ABOUT THE OFFICIAL VERSION OF EVENTS. ALTHOUGH IT BLAMED CURRENT PROBLEMS PRINCIPALLY ON THE "MISTAKES OF THE PAST" IN IMPLEMENTING IDEOLOGICAL EDUCATION, THE EDITORIAL IMPLICITLY CRITICIZED THE FAILURE TO DO ENOUGH ON REFORM AND THE OPENING TO THE OUTSIDE. IT STRESSED CHINA'S INTENTION TO CONTINUE THE OPENING BUT ALSO EXPANDED ON ANTI-WESTERN THEMES FIRST INTRODUCED BY LI PENG. IT CLAIMED DEMONSTRATORS WANTED "TOTAL WESTERNIZATION" OF CHINA, WERE BACKED BY FOREIGN ANTI-CHINA FORCES, AND WOULD HAVE MADE CHINA A "VASSAL OF THE IMPERIALISTS." BUT THE UNITED STATES, VOA, THE US EMBASSY OR FANG LIZHI WERE NOT MENTIONED. THE EDITORIAL PROBABLY REPRESENTS THE

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B. DRAINING THE BANK OF CHINA

WITHDRAWALS FROM THE BANK OF CHINA AND AFFILIATES IN HONG KONG CONTINUED OVER THE PAST WEEK, ACCORDING TO CONSULATE GENERAL HONG KONG. CONTINUING MASSIVE HELP FROM THE AUTHORITIES' EXCHANGE FUND HAS SO FAR PREVENTED DAMAGE, BUT FINANCIAL OBSERVERS SAY THE SITUATION IS LIKELY TO DETERIORATE.

COMMENT: THE BANK OF CHINA GROUP ACCOUNTED FOR 20 PERCENT OF DEPOSITS IN HONG KONG BEFORE THE CRISIS, AND ITS LENDING TO THE GOVERNMENT AND TROUBLED COMPANIES HAS PLAYED A CRUCIAL ROLE IN RECENT YEARS. NEWS OF SERIOUS TROUBLE WOULD SPEED CAPITAL FLIGHT OUT OF HONG KONG AND THE EXPECTED FALL IN PROPERTY VALUES. FALLING DEPOSITS WILL ALSO EVENTUALLY LIMIT THE BANK'S ABILITY TO LEND AND

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C. JAPAN SENDS MIXED SIGNALS

FOREIGN MINISTER MITSUZUKA TOLD A DIET COMMITTEE YESTERDAY THE SUPPRESSION OF CHINA'S PRO-DEMOCRACY MOVEMENT WAS INCOMPATIBLE WITH DEMOCRATIC VALUES, ACCORDING TO PRESS REPORTS. BUT TOKYO IS BEING CAREFUL TO AVOID ACTION THAT COULD BE CONSTRUED AS INTERFERENCE IN CHINESE DOMESTIC

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